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CENTRAL INTELLIGENCE AGENCY

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1. There is a desperate shortage of ball bearings throughout the countries of the Eastern bloc. Various attempts on the part of the industries in Eastern countries to produce ball bearings, especially in Czechoslovakia, have been a miserable failure. The Russians produce a limited quantity, mostly for their own use, but the quality is quite inferior. Heavy blackmarket traffic in ball bearings is flourishing between the Western Zones and the Eastern Zone of Germany and other countries of the Eastern bloc. Ball bearings are obtained mainly from the Western Zones of Germany and Austria and from Italy, through Switzerland. The following is an indication of the scope of blackmarket traffic in ball bearings. Two Czech operators in Berlin named Porner and Sladek, whose headquarters is the Intourist Hotel at Krausenhof in the Eastern Sector of Berlin, have just placed one order for ball bearings through blackmarket channels totalling 5,000,000 DM.
2. The Czech Government maintains a large group of industrial experts whose sole function is to obtain critical materials through blackmarket channels. One example of this is interesting: One thousand tons of copper, which was hidden by the Germans in the vicinity of Magdeburg, was secretly sold by the Germans to the Czech commercial experts behind the Soviet Union's back. The Czechs obtained special permission from SMA to transport one thousand tons of copper through the Soviet Zone of Germany, this stock of copper ostensibly
3. The prohibitive cost of smuggling critical materials into Czechoslovakia is one of the most important factors in the inability of Czech industry to compete for hard currency in Western markets. This is clearly demonstrated by the passenger automobile situation. The largest share of Czech passenger vehicles is sold to the People's Democracies, that is, some to Hungary, a large portion to Rumania, some to Bulgaria, and very little to Austria. Large stocks of passenger vehicles, specifically Skoda, are stored for lack of suitable markets.
4. There is accelerated activity by the Russians in Czechoslovakia in search of uranium. About four weeks ago a third spot containing uranium ore was discovered about fifty miles from Prague. The area was immediately placed off limits and is heavily guarded by Czech and Russian troops.

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5. The USSR is diligently concentrating on a search for cobalt. All cobalt purchased by the Czechs for hard currency and acquired largely through black-market channels is immediately transhipped to the USSR.
6. The Czechs have plenty of coal and coke for their own use. In fact, they deliver something over 25,000 tons of coke per month to the Eastern Zone of Germany. Poland also delivers approximately 5,000,000 tons of coal per year to the Eastern Zone of Germany.
7. The Czech economy is on the verge of bankruptcy. There is practically no hard currency available for the purchase of necessary raw materials. For example, the high quality steel formerly purchased in large quantities from Sweden is no longer available, to say nothing of high quality steel from Western Germany and other Western nations. In connection with heavy industry, particularly steel, the problem of obtaining processed ferrous alloy metals is fairly satisfactory, with the exception of a bottleneck which has been created by the difficulty of obtaining molybdenum, which is available only in the United States, and which is presently being obtained in small quantities from Sweden. Unquestionably the Swedes obtain this molybdenum from the United States. These ferrous alloys come from Lippendorf in the Eastern Zone of Germany. The finished product of the heavy industry, approximately

Some heavy industry items, such as a component parts for a very large bridge designed to span the Dnieper River, are being manufactured at the present time. This is a secret project to be completed by the end of this year. The bridge is a lift bridge, which fact indicates that it will probably be placed somewhere in the southern reaches of the Dnieper to permit the movement of larger vessels. The yearly steel production in Czechoslovakia is 2,500,000 tons.

8. The situation in connection with non-ferrous metals is critical to the point of disaster. The Czech Government recently issued a decree cutting down the overall processing of non-ferrous metals to under 60 percent of capacity, and this is considered to be an optimistic estimate. Copper stocks on hand will be finished in June. There are no stocks of aluminum whatsoever, and the aluminum which comes from the USSR (4,500 tons per year) is earmarked for airplane parts to be processed and shipped to the Soviet Union. The ferrochrome which comes from the Soviet Union for processing in Czechoslovakia is transported all the way from Korea. The Soviet Union also delivers approximately 75,000 tons of manganese yearly. Small quantities of nickel are shipped from the USSR, but the quality is extremely poor. There is an acute shortage also of such items as tin, crude rubber, and rawhides. The leather processing in Czechoslovakia has diminished to a point where it is insignificant. The same is true of rubber products. One million, two hundred thousand tons of iron ore come from the USSR (Magnitogorsk area) for processing, but the quality of this ore is extremely poor. There is a standing order from the Soviet Union for delivery of 30,000 tons of finished railroad rails per year.
9. It is strongly believed that, on the whole, the Czech Government will be compelled to eliminate completely nonessential manufactured items and concentrate only on items for delivery to the Soviet Union, such as generators, turbines, etc., especially those items which require copper.

This document is hereby regraded to CONFIDENTIAL in accordance with the letter of 16 October 1978 from the Director of Central Intelligence to the Archivist of the United States.
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